

**ARC OF DESOTO**  
**(a nonprofit corporation)**  
**Mansfield, Louisiana**

**FINANCIAL STATEMENTS**  
**June 30, 2008 and 2007**

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Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date

4/15/09

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**Deborah D. Dees, MBA, CPA**  
**122 Jefferson Street**  
**Mansfield, LA 71052**  
**318-872-3007**

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**ARC OF DESOTO**  
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**Independent Auditor's Report**

To the Board of Directors  
The Arc of DeSoto  
Mansfield, Louisiana

I have audited the accompanying statements of financial position of The Arc of DeSoto, (a nonprofit corporation) as of June 30, 2008 and 2007, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arc of DeSoto as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated February 23, 2009, on my consideration of The Arc of DeSoto's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of my audit.

*Deborah D. Dees, CPA*

Mansfield, Louisiana  
February 23, 2009

**ARC OF DESOTO**  
**Statements of Financial Position**  
**June 30, 2008 and 2007**

<b>ASSETS</b>	<b>2008</b>	<b>2007</b>
<b>Current Assets</b>		
Cash	\$ 52,351	\$ 98,394
Accounts Receivable	31,011	25,398
Total current assets	<u>83,362</u>	<u>123,792</u>
<b>Property, Plant &amp; Equipment</b>		
Buildings	282,072	282,072
Land	8,000	8,000
Furniture and fixtures	3,856	3,856
Machinery and equipment	25,868	25,868
Vehicles	154,721	154,721
Sheltered workshop equipment	32,391	32,391
Total property, plant & equipment	506,908	506,908
Less: Accumulated Depreciation	(274,140)	(252,456)
Net property and equipment	<u>232,768</u>	<u>254,452</u>
<b>Other Assets</b>		
Prepaid Professional Fees		416
Deposit-Utilities	50	50
Total other assets	<u>50</u>	<u>466</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 316,180</u></b>	<b><u>\$ 378,710</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 6,499	\$ 3,929
Payroll taxes payable	4,013	3,683
Total current liabilities	<u>10,512</u>	<u>7,612</u>
<b>Net Assets</b>		
Unrestricted:		
Board operation fund	7,696	8,205
Fixed assets	232,768	254,452
Designated for programs	65,204	108,441
Total unrestricted net assets	<u>305,668</u>	<u>371,098</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 316,180</u></b>	<b><u>\$ 378,710</u></b>

The accompanying notes are an integral part of part of the financial statements.

**ARC OF DESOTO**  
**Statements of Activities**  
**For the years ended June 30, 2008 and 2007**

	<u>2007</u>	<u>2006</u>
<b>Unrestricted Net Assets</b>		
Revenues and other support:		
Community Homes - contractual	40,992	40,992
Medicaid Income	198,080	208,170
United Way	6,826	6,716
Membership dues	8,757	2,050
Interest and dividend income	499	694
Service income - sheltered workshop	51,698	47,651
Miscellaneous	1,701	10,130
Total increase in net assets	<u>308,553</u>	<u>316,403</u>
<b>Expenses</b>		
Program Services		
Adult habilitation services	336,348	340,409
Sheltered workshop	36,496	34,301
Other programs	1,141	1,567
Total decrease in net assets	<u>373,983</u>	<u>376,277</u>
Net Increase (decrease) in unrestricted net assets	(65,430)	(59,874)
 Unrestricted net assets, beginning of year	 <u>371,098</u>	 <u>430,972</u>
Unrestricted net assets, end of year	<u>\$ 305,668</u>	<u>\$ 371,098</u>

The accompanying notes are an integral part of the financial statements.

**ARC OF DESOTO**  
**Statement of Functional Expenses**  
**For the year ended June 30, 2008**

	<u>Adult Habilitation Services</u>	<u>Sheltered Workshop</u>	<u>Other Programs</u>
Bank Charges	145		
Client Expense	1,069	2,016	
Depreciation	20,836	848	
Drug Testing	144		
Dues & Subscriptions	97		
Employee Benefits	1,525		
Fuel-Auto	32,574 -		
Insurance	51,827 -		
Licenses & Permits	137		
Maintenance- vehicles	11,202		
Office Expenses/Supplies	7,608		
Payroll Tax Expense	12,982		
Professional Fees	11,747		
Repairs/Maintenance	2,061		
Salaries and wages	164,709 -	19,197	
Security	1,117		
Staff Training	721		
Supplies		14,435	
Telephone	4,879		
Travel	606		
Utilities	10,360		
Other Expenses			1,141
Total program services expenses	<u>\$ 336,346</u>	<u>\$ 36,496</u>	<u>\$ 1,141</u>

**ARC OF DESOTO**  
**Statement of Functional Expenses**  
**For the year ended June 30, 2007**

	<b>Adult Habilitation Services</b>	<b>Sheltered Workshop</b>	<b>Other Programs</b>
Advertising	\$ 37		
Bank Charges	240		
Client Expense	105	2,361	
Depreciation	28,370	848	
Drug Testing	638		
Dues & Subscriptions	256		
Employee Benefits	1,525		
Fuel-Auto	28,872		
Insurance	52,191		
Licenses & Permits	20		
Maintenance- vehicles	7,982		
Office Expense/Supplies	7,792		
Payroll Tax Expense	12,845		
Professional Fees	11,315		
Repairs/Maintenance	7,307		
Salaries and wages	160,336	17,094	
Security	1,906		
Staff Training	727		
Supplies		13,998	
Telephone	4,596		
Travel	2,021		
Utilities	11,328		
Other expense			1,567
Total program services expenses	<u>\$ 340,409</u>	<u>\$ 34,301</u>	<u>\$ 1,567</u>

The accompanying notes are an integral part of the financial statements.

**ARC OF DESOTO**  
**Statements of Cash Flows**  
**For the years ended June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Unrestricted Net Assets	\$ (65,430)	\$ (59,874)
Adjustments to Reconcile Net Income(Loss) to Net Cash Provided By (Used in) Operating Activities:		
Depreciation	21,684	29,218
Losses (Gains) on Sales of Fixed Assets		
Decrease (Increase) in Operating Assets:		
Accounts Receivable	(5,613)	3,811
Prepays	416	10,672
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	2,570	(789)
Payroll Tax Liabilities	330	2,537
Total Adjustments	<u>19,387</u>	<u>45,449</u>
Net Cash Provided By (Used In) Operating Activities	(46,043)	(14,425)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net Cash Provided By (Used In) Investing Activities		
<b>NET INCREASE (DECREASE) IN CASH</b>	(46,043)	(14,425)
<b>CASH AT BEGINNING OF PERIOD</b>	<u>98,394</u>	<u>112,819</u>
<b>CASH AT END OF PERIOD</b>	<u>\$ 52,351</u>	<u>\$ 98,394</u>

The accompanying notes are an integral part of the financial statements.



**ARC OF DESOTO**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**

**Note A. Nature of Activities and Summary of Significant Accounting Policies**

**Nature of Activities**

The Arc of DeSoto is a nonprofit corporation under the laws of the State of Louisiana. The Arc of DeSoto (The Arc) was established to provide habilitation services to developmental disabled persons ages 18 years and older within DeSoto Parish, Louisiana. These activities are reported under the Adult habilitation services program. The Arc also provides vocational services reported as the Sheltered workshop program in which the clients can work and earn wages for such things as lawn care, janitorial services, cooking and ironing. The organization is primarily supported through Medicaid payments. Approximately 65% of the Arc's support for the years ended June 30, 2008 and 2007 came from this agency.

**Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

**Basis of Presentation**

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements for Not-for-Profit Organizations*. Under SFAS No. 117, The Arc is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Arc has not received any revenues or contributions with restrictions that would result in permanently restricted net assets. SFAS No. 117 also requires a not-for-profit organization to provide information about expenses by functional classifications. The Statement of Activities presents the expenses charged directly to program or supporting services based on specific identification.

**Cash and/or Cash Equivalents**

For the purposes of the statement of cash flows, The Arc of DeSoto considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. The carrying value of cash approximates fair-value because of the liquidity of those financial instruments. The Federal Deposit Insurance Corporation as of June 30, 2008 insures the checking accounts at each institution. The Board has a checking account for contributions that are used solely for client expenses that are not allowed under the state's contract.

**Property and Equipment**

Property and equipment are carried at cost or if donated, at the approximate fair value at the date of donation. The State of Louisiana has a reversionary interest in property purchased with state funds. Its disposition as well as the ownership of any proceeds therefore is subject to state regulations.

The Arc of DeSoto follows the practice of capitalizing, at cost, all expenditures for fixed assets in excess of \$500. Depreciation is computed using the straight-line method over the estimated useful life of each asset generally as follows:

Buildings and improvements	31.5 years
Furniture and equipment	7 years
Vans	5 years

The net fixed asset balance has been recorded as a separate component in unrestricted net assets. Depreciation expense for June 30, 2008 and 2007 is \$21,684 and \$29,218, respectively.

**ARC OF DESOTO**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**

Income Taxes

The Arc of DeSoto is a nonprofit corporation and is exempt from state and federal income taxes under Section 501(c) (3) of the Internal Revenue Code. No provision for income taxes has been made in these financial statements. However, income from certain activities not directly related to the tax-exempt purposes of the Association is subject to taxation as unrelated business income. The Arc of DeSoto had no such income for this audit period.

Revenue and Support

The Arc of DeSoto receives its support primarily from Medicaid reimbursements and the Office for Citizens with Developmental Disabilities. Revenue is reported as unrestricted support due to the restrictions placed on those funds by the funding sources being met in the same reporting period as the revenue is earned. The Arc of DeSoto receives other contractual revenue from local community homes for the services provided to their clients.

Contributions of donated non-cash assets are recorded at their fair value in the period received. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Arc had no temporarily or permanently restricted net assets for year ended June 30, 2008.

Retirement Obligations

The employees of The Arc of DeSoto participate in a 401(k) thrift plan. The Arc will match 50% of the first 6% of salary contributed by the employee, and the employee is fully vested in five years. The Arc of DeSoto's contributions for 2008 and 2007 were \$1,525 and \$1,525, respectively.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Compensated Absences

Compensated absences are not recorded in the financial statements because all employees take the same week vacation in June and 10-day vacation in December. Leave is accumulated but if not used, is only paid if the employee is terminated; therefore the amount cannot be reasonably estimated.

**Note B. Accounts Receivable**

The accounts receivable consists of the following for the years ended June 30:

	2008	2007
Community Homes	10,248	3,416
Medicaid Waivers	15,681	17,009
United Way of Northwest LA	5,083	4,973
	<u>\$ 31,011</u>	<u>\$ 25,398</u>

**ARC OF DESOTO**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**

**Note C. Contingency/ Subsequent Events and Management Plans**

In fiscal year ending June 30, 2007, The Arc of DeSoto changed from a fixed state contract to direct Medicaid reimbursements based on client attendance. This resulted in an approximate 18% decrease in the Arc's client revenue. This together with the fact that the during these two years minimum wage increased and fuel and insurance prices were higher than normal resulted in a combined total loss of \$125,304 for fiscal years 2008 and 2007. These factors have created an uncertainty about the organization's ability to continue operations and continue as a going concern. The financial statements do not include any adjustments that might be necessary if the Arc is unable to continue.

On July 22, 2008, the DeSoto Parish Police Jury signed a cooperative endeavor agreement to give the Arc of DeSoto \$36,000 (\$6,000 over six months) "to help support and provide services for mentally challenged individuals of the Parish." The DeSoto Parish Police Jury has also included \$72,000 in its calendar year 2009 budget to again support the DeSoto Arc.

Management and the Board continue pursuing new grant funding and operating revenue sources to establish an adequate cash flow.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
The Arc of DeSoto  
Mansfield, LA

I have audited the financial statements of The Arc of DeSoto (a nonprofit corporation) as of and for the years ended June 30, 2008 and 2007, and have issued my report thereon dated February 23, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered The Arc of DeSoto's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Arc of DeSoto's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Arc of DeSoto's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I did identify certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. I consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting: 2008-01, 2008-02, and 2008-03.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Arc of DeSoto's internal control.

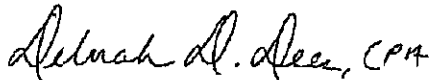
My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that none of the significant deficiencies described above is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Arc of DeSoto's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as: item 2008-04.

Arc of DeSoto's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. I did not audit DeSoto Arc's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the board of directors, management, others within the organization, the Legislative Auditor, and the cognizant agencies and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is a public document and its distribution is not limited.



Mansfield, Louisiana  
February 23, 2009

**ARC OF DESOTO**  
Schedule of Finding and Responses  
For the Year ended June 30, 2008

**Part 1. Summary of Auditor's Results**

**INDEPENDENT AUDITOR'S REPORT:**

I have audited the statements of financial position of the Arc of DeSoto as of and for the years ended June 30, 2008 and 2007, and the related statements of activities, functional expenses and cash flows and have issued my report thereon dated February 23, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. My audit of the above referenced financial statements as of June 30, 2008 and 2007 resulted in an unqualified opinion.

**REPORT ON INTERNAL CONTROL AND COMPLIANCE OVER THE FINANCIAL STATEMENTS:**

**Internal Control**

Significant Deficiency  
Material Weaknesses

<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**Compliance**

Compliance Material to Financial Statements

<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
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A management letter was not issued.

**FEDERAL AWARDS**

Not applicable

**Part II. Findings relating to the Financial Statements, which are required to be reported under *Government Auditing Standards*.**

**FINDINGS RELATED TO INTERNAL CONTROL**

**2008-01. Inadequate design of internal control over financial statement preparation.**

**Criteria.** In the past, auditors were able to draft the financial statements with management accepting responsibility. Effective for financial statements ending on or after December 15, 2006, Statements on Auditing Standards 112 expands management's responsibility to ensure the propriety and completeness of the financial statements and related footnotes.

**Finding.** The Arc's staff responsible for preparation of the financial statements and related footnote disclosure in accordance with generally accepted accounting principles (GAAP) lacks the resources and/or knowledge necessary to internally complete the reporting requirements.

**Recommendation:** The Arc should either 1) obtain the resources and/or knowledge necessary to internally prepare or review the auditor's preparation of the financial statements and related footnote disclosures in accordance with GAAP, or 2) determine if the cost of No. 1) overrides the benefit of correcting this control deficiency.

#### 2008-02. Related party

Criteria. For good internal control, the Board of Directors should monitor hiring practices within the organization. The minutes of the Board of Directors should document the monitoring of management and other business brought before it.

Finding. Employee records were reviewed and in July 2007, the brother of the executive director was hired. In May 2007, an employee with a criminal record was hired. There is no mention of authorization by the Board of Directors of either hire or approval of their pay rates in the Board of Director minutes. Also, the October minutes stated, "Due to absence of the Board's Secretary at previous meeting, there were no minutes to approve."

Recommendation. When there are extraordinary circumstances as in this finding, it would a better practice to have proper monitoring of the hiring process. With approximately twelve employees, all new employees and their pay rates could and should be approved by the Board of Directors. Also, there should be minutes for all meetings. If there is no secretary, someone should be appointed at the meeting.

#### 2008-03 Inadequate segregation of duties.

Criteria. Good internal control requires that different personnel be assigned to authorize transactions, record transactions, and maintain custody of assets.

Finding. The Arc does not have adequate segregation of duties within the billing and accounts receivable function of the accounting system. The center bills for client reimbursement and client sheltered workshop income and records the receipts. There is no compensating general ledger control account to reconcile the billings with the receipts.

Recommendation: The duties should be segregated to the extent possible to prevent both intentional and unintentional errors. Segregation includes 1) separating the initializing of billing transactions and the subsequent custody and recording of the receipts and 2) separating monitoring responsibility from record keeping. The organization should utilize general ledger accounts receivable control accounts to reconcile the billings, receipts, and outstanding accounts receivables.

#### FINDING RELATED TO COMPLIANCE

#### 2008-04. Violation of the Louisiana Audit Law

Criteria. Louisiana Revised Statutes require the DeSoto Arc to submit annual financial statements to the Louisiana Legislative Auditor within six (6) months of the end of the fiscal year.

Finding. The Arc failed to submit the annual financial statements within the required time.

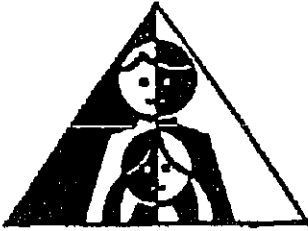
Recommendation. Because of a death in my family, I, as auditor, was unable to complete the audit before the required due date.

**ARC OF DESOTO**  
Summary Schedule of Prior Audit Findings  
For the Year ended June 30, 2008

**Prior year findings:**

There were no findings for the year ended June 30, 2007 to be reported.





## *The Arc of DeSoto*

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### **Response to Current Year Ending for the Year Ended June 30, 2008**

#### **2008-01 Financial statement preparation**

Based upon the cost versus benefit of obtaining the necessary resources and/or training. We have determined that is not cost effective to obtain the necessary qualifications and training to establish internal controls over the prepare to of financial statements in accordance with GAAP. We feel it is in my interest to continue to outsource this task to the independent auditor, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation

#### **2008-02 Related Parties**

New employees hired to the ARC will be approved by the board and documented in detail in the board's minutes. Management and the board will be more dutiful and thorough in the recording of their board minute meeting proceedings.

#### **2008-03 Segregation of Duties**

At this time we have determined that it is not cost effective to attempt to achieve complete segregation of duties within the accounting functions of the ARC of DeSoto. We will, also, establish a central account in the general ledger for the sheltered workshop revenue.

#### **2008-04 Louisiana Audit Law violation**

We concur with the auditor's recommendation.

Respectfully submitted

Marva Warmsey  
Director